ROCKPORT

ENERGY CORPORATION

1994

ANNUAL REPORT

CORPORATE PROFILE

Rockport Energy Corporation is an emerging oil and gas exploration, development and production company with its head office in Calgary, Alberta. The Corporation's common shares are listed for trading on the Alberta Stock Exchange (symbol "RPT").

Rockport acquired its first producing oil and gas properties in early 1994, establishing a production base of high-quality, long-life reserves. Our corporate philosophy reflects a commitment to the internal development of exploration and development projects within the Corporation's core areas.

Notice of Special and Annual Meeting

The Special and Annual General Meeting of Shareholders will be held on Wednesday, May 10, 1995 at 11:00 a.m., at the offices of the Corporation, Suite 1250, 639 - 5th Avenue S.W., Calgary, Alberta.

Glossary of Terms

bbls	barrels
bopd	barrels of oil per day
boe	barrel of oil equivalent
mbbls	thousands of barrels
mcf	thousand cubic feet
mcfd	thousand cubic feet per day
mmcf	million cubic feet
mmcfd	million cubic feet per day

PRESIDENT'S MESSAGE TO THE SHAREHOLDERS

1994 has set the tone for the accelerated growth of Rockport Energy Corporation. From startup in February, 1994, Rockport has achieved its goals of establishing production and embarking on an oil-based exploration program. To date, we have drilled two successful exploration plays which set the stage for future growth.

In 1994, revenue (net of royalties and Alberta Royalty Tax Credit) was $620,953 with resulting cash flow of $324,688. Year end production of 76 bopd and gas production of 263 mcfd was achieved.

As a result of our current exploration success, Rockport is aggressively pursuing land acquisition, seismic and drilling opportunities. New pool discoveries are being followed up with three-dimensional (3-D) seismic surveys and development drilling.

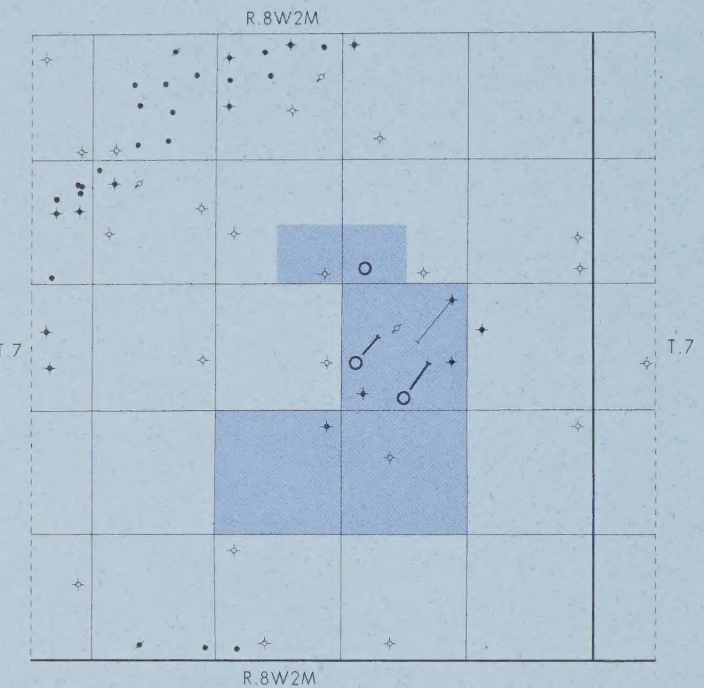
Highlights of 1994

- Two new pool discoveries at Viewfield and Weyburn, Saskatchewan which are currently being exploited with 3-D seismic and horizontal wells.
- Acquired a significant inventory of 18,480 gross acres of prospective exploration lands in the Corporation's core areas.
- Negotiated three Joint Venture Agreements with industry partners for exploration activities: two in Provost, Alberta and one in southern Saskatchewan.
- Acquisition of major oil producing properties in the Pembina area of Alberta at a total cost of $1.57 million.
- Public issue of eight million Class "A" common shares in February, 1994, raising $2 million.

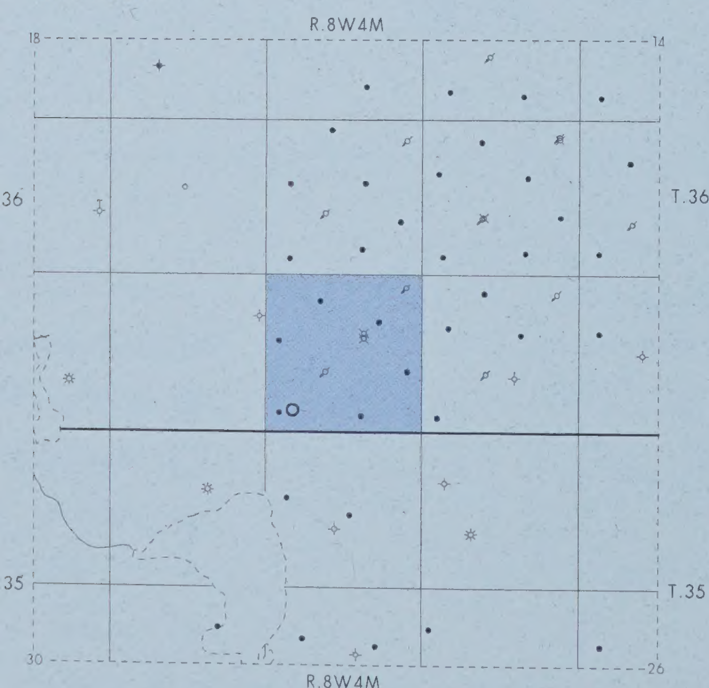
Strategy for Growth

Rockport's strategy for continued growth will be the exploration and development of internally generated oil prospects in our core areas in Alberta and Saskatchewan. The Corporation remains focused on the generation of shallow to medium-depth drilling prospects in order to effectively control costs and increase exploration success. Rockport remains debt-free and plans to utilize credit selectively for low-risk investments. Through these strategies and objectives the Corporation is committed to maximizing shareholder value.

Viewfield Area



Throne Area



Viewfield

Rockport acquired interests in 2,240 acres by drilling an exploratory horizontal well at 10-14, which is currently on production at 125 bopd. We have drilled a vertical well and a second horizontal well, which are both currently undergoing testing. Rockport has a 5% W.I. in the 10-14 well and a 10% W.I. in the balance of the project. A 3-D seismic program is underway to define additional drilling targets.

ALBERTA

In the Provost area of Alberta, Rockport has acquired varying working interests in over 8,400 acres of exploration and development lands. Three prospects will be drilled on the Corporation's lands during the first half of 1995. Two of the prospects are exploratory and, if successful, will result in potential new pool discoveries with significant development drilling opportunities. Rockport has developed and high-graded each of these prospects with seismic programs. Upon an exploratory well encountering economic quantities of hydrocarbons, a 3-D seismic survey will be shot in order to further define the prospect and improve subsequent pool development.

Throne

Following the geophysical interpretation of a 700-mile seismic data base covering 500 sections of land, Rockport posted and successfully purchased a 20% interest in the Throne prospect at a Crown land sale. Additional seismic data was purchased and a new seismic program was shot over the 640-acre prospect in order to determine a

drilling location. The first test well will be drilled during the summer of 1995 to evaluate the Dina Formation for oil potential.

Provost

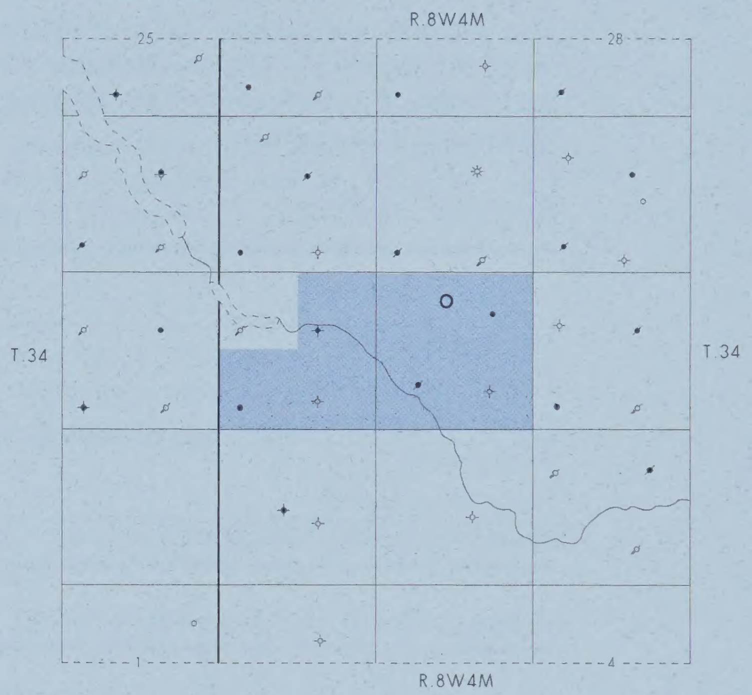
At Provost, Rockport purchased a 22.5% working interest in 1,120 acres of Crown petroleum and natural gas rights. The Corporation has subsequently shot two seismic programs over these leases in order to high-grade the drilling location. This Dina oil prospect is scheduled to be drilled after spring break-up.

Loyalist

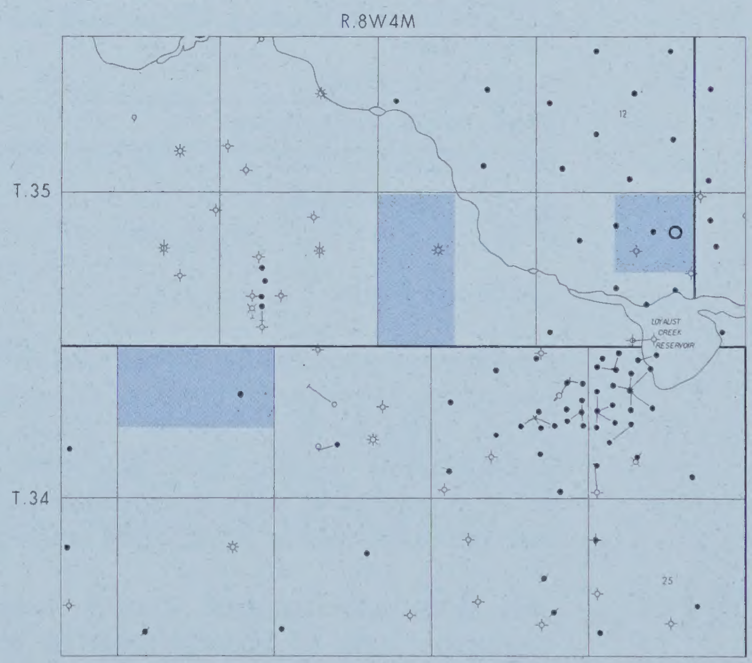
The third prospect in Alberta is a development opportunity on the Basal Quartz/Detrital Formation. Rockport has a 25% working interest in the lands with 3,200 acres and has over 15 miles of seismic data over our lands. Plans are underway to drill the first well during the second quarter of 1995.

A seismic option on a second prospect in this area has recently been negotiated and its potential will be evaluated through a combination of seismic and drilling operations.

Provost Area



Loyalist Area



PETROLEUM RESERVES

The volumes and present value of Rockport's petroleum reserves have been evaluated as at December 31, 1994 by Paddock Lindstrom & Associates Ltd. The following tables summarize the evaluation. The volumes represent the Corporation's gross interest in reserves before royalties.

Reserve Volumes

	Oil (mbbls)	Natural Gas (mmcf)	NGL's (mbbls)
Proved producing	147.1	437.4	2.4
Proved non-producing	--	555.1	--
Proved undeveloped	49.3	--	--
Total proved	196.4	992.5	2.4
Probable additional	3.7	228.8	--
Total proved plus probable	200.1	1,221.3	2.4

Present Worth of Future Net Pre-Tax Case Flows ($000's)

		Discounted at		
	Undiscounted	10%	15%	20%
Proved producing	2,480	1,633	1,390	1,210
Proved non-producing	547	239	170	125
Proved undeveloped	620	450	401	363
Total proved	3,647	2,322	1,961	1,698
Probable additional	531	159	96	63
Total proved plus probable	4,178	2,481	2,057	1,761

ACQUISITIONS

Pembina Area

On February 28, 1994 the Corporation closed an acquisition to purchase a 9.9% to 19.8% non-operated interest in three individual oil wells and a 0.42% to 3.46% working interest in five units for $1.57 million. These properties are located in the Pembina area, approximately 45 miles southwest of the city of Edmonton, Alberta and include interests in 185 producing oil wells, one producing gas well, associated batteries and other facilities, with net production to Rockport of approximately 82 boe per day.

This acquisition features low-risk, long-life, high-quality reserves, ensuring a solid production base for approximately 25 years at existing decline rates. Upside potential exists in the properties through the application of horizontal drilling technology.

FINANCIAL REVIEW

Petroleum and Natural Gas Sales

Rockport's crude oil production at December 1994 averaged 76 bopd. The average price received for 1994 was $20.99 per barrel. With the acquisition of the Pembina properties, natural gas production commenced at 212 mcfd and closed the year at 263 mcfd. The average natural gas price received for 1994 was $1.58 per mcf.

Marketing

Rockport takes the majority of its oil in kind and has crude oil purchase contracts in place with Amoco Canada Petroleum Company Ltd., Northridge Petroleum Marketing Inc. and Canpet Energy Group Inc. The price received is adjusted for gathering tariffs, quality differentials and marketing fees.

The Corporation's natural gas production is sold under contracts with Canadian Occidental Petroleum Ltd. and Chevron Canada Resources.

Royalties

The Crown portion of the crude oil and natural gas royalties for the Pembina Area was not reduced for ARTC as the properties were purchased from a restricted corporation. The Corporation qualified for reduced royalty rates in the Weyburn and Viewfield Areas under Saskatchewan Energy and Mines' royalty incentive program for horizontal wells.

General and Administrative

General and administrative expenses for 1994 were $130,410 after recoveries and capitalization of exploration and administrative costs. At the end of 1994, the Corporation had two employees and engaged the services of consultants to provide technical assistance in geophysical and engineering projects.

Depletion, Depreciation and Site Restoration

Depletion and depreciation totalled $589,466. The Corporation applied the ceiling test to the capitalized amount of its petroleum and natural gas properties using current prices at December 31, 1994 and has determined that a writedown of $300,000 was required, which has been reflected in the depletion amount. Rockport has estimated future site restoration and abandonment costs of $34,900.

Income Taxes

There are no taxes payable for the year ended December 31, 1994.

OUTLOOK

1995 will prove to be an exciting year for Rockport. Our past and continued emphasis will be on the exploration and development of oil prospects. With a solid production base, an abundant inventory of exploration and development opportunities, your Corporation is poised to achieve significant and sustained growth in all areas during the upcoming year.

Current cash flow will provide Rockport with the opportunity to pursue its fundamental strategy, "*to grow through exploration.*" We are committed to the internal development of superior exploration and development prospects within our core areas. Our challenge in 1995 will be to enhance shareholder value through continued successful exploration and development drilling.

ACKNOWLEDGEMENTS

I am very pleased to announce the appointment of Mr. A. Stephen Brink to the Board Of Directors in May, 1994 and look forward to his advice and contributions to the Board.

The success of Rockport is a consequence of the energy and commitment of our staff. We want to express our sincere thanks and appreciation to all of those dedicated to building Rockport into a dynamic and successful oil and gas exploration and production Corporation.

Respectfully Submitted For and On Behalf of the Board of Directors,

BG Hall

Bruce G. Hall
President and Chief Executive Officer

March 24, 1995

AUDITORS' REPORT

To the Shareholders of
Rockport Energy Corporation

We have audited the balance sheets of Rockport Energy Corporation as at December 31, 1994 and 1993 and the statements of loss and deficit and changes in financial position for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1994 and 1993 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Ernst & Young

Chartered Accountants
March 22, 1995

BALANCE SHEETS
As at December 31

	1994	1993
Assets		
Current Assets		
Cash and term deposits	$ 376,409	$ 467,179
Accounts receivable	164,175	53,247
Prepaid expenses	8,036	--
	548,620	520,426
Capital assets (Note 3)	2,282,757	488,798
	$ 2,831,377	$ 1,009,224

	1994	1993
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued charges	$ 410,479	$ 49,910
	410,479	49,910
Provision for future site restoration costs	34,900	--
Shareholders' Equity		
Share capital (Note 4)	3,508,275	1,781,913
Deficit	(1,122,277)	(822,599)
	2,385,998	959,314
	$ 2,831,377	$ 1,009,224

On behalf of the Board:

(signed) Bruce G. Hall, Director

(signed) Larry V. Zadan, Director

STATEMENTS OF LOSS AND DEFICIT

For the years ended December 31

	Commencement of Commercial Production February 1, 1994 to December 31, 1994 Note 2	1993
Revenue		
Petroleum and natural gas sales, net of royalties and Alberta Royalty Tax Credit	$ 503,000	$ --
Royalties	85,390	--
Interest and other	32,563	--
	620,953	--
Expenses		
Lease operating costs	165,855	--
General and administrative	130,410	--
Depreciation, depletion and site restoration	624,366	--
	920,631	--
Loss for the year before income taxes	(299,678)	--
Income taxes (Note 6)	--	--
Net loss for the year	(299,678)	--
Deficit, beginning of year	(822,599)	(822,599)
Deficit, end of year	$ (1,122,277)	$ (822,599)
Net loss per share, basic (Note 10)	$ (0.020)	--

STATEMENTS OF CHANGES IN FINANCIAL POSITION

For the years ended December 31

	1994	1993
Operating Activities		
Net loss for the year	$ (299,678)	$ --
Non-cash items:		
Depreciation, depletion and site restoration	624,366	--
Cash flow from operations	324,688	--
Net change in non-cash working capital related to operating activities	84,500	(27,153)
	409,188	(27,153)
Financing Activities		
Issue of share capital, net of share issue costs	1,726,362	1,000,135
Investing Activities		
Acquisition of capital assets	(2,428,575)	(510,803)
Proceeds on disposal of capital assets	45,150	--
Net change in non-cash working capital related to investing activities	157,105	--
	(2,226,320)	(510,803)
Increase (Decrease) in cash and term deposits	(90,770)	462,179
Cash and term deposits - beginning of year	467,179	5,000
Cash and term deposits - end of year	$ 376,409	$ 467,179
Cash flow from operations per share (Note 10)	$ 0.022	$ --

NOTES TO THE FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS

Rockport Energy Corporation is a public company, incorporated under the Canada Business Corporations Act. It is a natural resource corporation engaged in the acquisition, exploration and development of oil and gas properties.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) DEFERRED EXPLORATION AND DEVELOPMENT COSTS

The Corporation was in the preproduction stage until February 1, 1994. All costs net of revenues, up to the commencement of commercial production on February 1, 1994 have been deferred and the statement of loss and deficit reflects operations for the eleven-month period ended December 31, 1994. Deferred exploration costs capitalized in respect of the period from commencement of operations to commencement of commercial production were transferred to the full cost pool on February 1, 1994 when production at commercial levels was attained and are depleted as part of the cost of petroleum and natural gas properties. Accordingly, the statement of loss and deficit reflects the Corporation's operations for the eleven-month period ended December 31, 1994.

(b) PETROLEUM AND NATURAL GAS PROPERTIES

The Corporation follows the full cost method of accounting for its petroleum and natural gas properties. All costs related to the exploration for and development of petroleum and natural gas reserves, whether productive or non-productive, are capitalized in one cost centre and charged against earnings as set out below. Such costs include land acquisition, drilling, geological and geophysical costs, lease rentals on undeveloped properties and drilling costs of both productive and non-productive wells.

Gains or losses are not recognized upon disposition of petroleum and natural gas properties unless crediting the proceeds against accumulated costs would result in a change in the rate of depletion of 20% or more as a result of the disposition.

The carrying value of the Corporation's petroleum and natural gas properties, net of deferred income taxes and site restoration provision, is limited to an ultimate recoverable amount. This amount is the aggregate of estimated future net revenues from proved reserves and the costs of unproved properties, net of impairment allowances, less future estimated production general and administrative costs, financing costs, the estimate of future site restoration costs and income taxes. Future net revenues are estimated using year-end prices and costs without escalation or discounting and the income tax and Alberta royalty tax credit legislation in effect at the year end.

(c) DEPLETION AND DEPRECIATION

The provision for depletion and depreciation of petroleum and natural gas properties is computed using the unit of production method based on estimated proven reserves of oil and gas before royalties, converted to a common unit of measure on the basis of their approximate relative energy content. Costs of acquiring and evaluating unproved properties will be excluded from depletion calculations until it is determined whether or not proved reserves are attributable to the properties or impairment occurs.

Furniture and fixtures are depreciated on a straight-line basis over five years.

(d) FUTURE SITE RESTORATION COSTS

The estimated cost of site restoration is based on the current cost and the anticipated method and extent of site restoration in accordance with existing legislation and industry practice. Estimated future site restoration costs are accrued on a unit of production basis based on proven reserves. The provision is recorded on the statement of loss and deficit together with depletion and depreciation. When expenditures are made to restore a property, the accumulated provision is charged with these expenditures.

(e) FLOW THROUGH SHARES

Flow through common shares are initially recorded at net proceeds. Share capital/capital assets are reduced by the tax effect of the expenditures to be renounced to the flow through shareholders when the expenditures are incurred.

(f) JOINT VENTURE ACCOUNTING

All of the exploration and production activities of the Corporation are conducted jointly with others and accordingly these financial statements reflect only the Corporation's proportionate interest in such activities.

3. CAPITAL ASSETS

	December 31, 1994		
	Cost	Accumulated Depreciation and Depletion	Net Book Value
Petroleum and natural gas properties	2,859,892	587,000	2,272,892
Furniture and fixtures	12,331	2,466	9,865
	$ 2,872,223	$ 589,466	$ 2,282,757

	December 31, 1993		
	Cost	Accumulated Depreciation and Depletion	Net Book Value
Deferred exploration and development costs	482,189	–	482,189
Furniture and fixtures	6,609	–	6,609
	$ 488,798	$ –	$ 488,798

The Corporation applied the ceiling test to the capitalized amount of its petroleum and natural gas properties using current prices at December 31, 1994 and has determined that a writedown of $300,000 was required, which has been reflected in the depletion amount.

Deferred exploration and development costs of $482,189 were transferred to the full cost pool of petroleum and natural gas properties on commencement of commercial production on February 1, 1994. This amount represents general and administrative expenses net of interest income which were incurred prior to date of commencement of commercial production on February 1, 1994.

During the year, the Corporation capitalized $133,444 of general and administrative costs.

As at December 31, 1994, petroleum and natural gas properties include $128,000 (1993 - $482,189) relating to unproved properties which have been excluded from the depletion calculation.

4. SHARE CAPITAL

Authorized :
Unlimited Class A Voting Common Shares
Unlimited Class A Preferred Shares

Issued:	Common Shares	
	# of Shares	*$*
Issued and outstanding, as at December 31, 1992	3,773,310	803,783
Share consolidation	(1,886,655)	---
Settlement of debt due to shareholders	349,720	22,486
Issued for properties	2,000,000	200,000
Issued for cash by private placement - April 26, 1993	1,449,000	362,250
Issued for cash by private placement - October 1, 1993	1,271,860	445,151
Less tax pools renounced to shareholders	--	(22,005)
Less share issue costs	--	(29,752)
Issued and outstanding, as at December 31, 1993	6,957,235	1,781,913
Issued for cash by public offering, net of share issue costs of $155,371	8,000,000	1,844,629
Less tax pools renounced to shareholders		(118,267)
Issued and outstanding, as at December 31, 1994	14,957,235	3,508,275

On October 1, 1993 the Corporation issued 360,835 Common Shares and 911,025 Flow Through Common Shares at $0.35/share pursuant to a private placement. The Common Shares issued pursuant to the private placement included 57,160 Common Shares in payment of a finders' fee. The Flow Through Shares require the Corporation to renounce $318,800 of its expenditures on oil and gas properties, of which $50,011 was renounced during the year ended December 31, 1993. The balance of $268,789 was renounced during the year ended December 31, 1994. The tax effect of the amounts renounced in 1994, $118,267, has been recognized as a decrease to share capital and a corresponding decrease to capital assets.

5. STOCK OPTION PLAN

The Board of Directors has approved the granting of options to certain directors, officers and employees to purchase the Corporation's common shares, which were outstanding as follows at December 31, 1994:

Number of Shares Under Option	Exercise Price Per Share	Expiry Date
305,000	$ 0.27	August 13, 1997
200,000	$ 0.27	April 16, 1998
50,000	$ 0.20	September 19, 1998
555,000		

6. INCOME TAXES

The provision for income taxes differs from the amount that would have been expected by applying corporate income tax rates to income before income taxes. The principal reasons for this difference are as follows:

	1994
Loss before income taxes	(299,678)
Statutory income tax rate	44.00%

Anticipated tax provision	(131,858)
Increase (decrease) in income tax resulting from:	
Non-deductible royalties and taxes	35,447
Resource allowance	(35,741)
Reduction of taxes due to utilization of loss carry forwards previously unrecognized	(114,600)
Deferred tax debit not recognized	246,752
Income tax provision	—

7. RELATED PARTY TRANSACTIONS

During the year ended December 31, 1994 there were management, geophysical consulting and prospect generation fees of $37,500 paid to officers and directors of the Corporation.

8. REVOLVING LINE OF CREDIT

The Corporation has a demand revolving operating credit facility with a Canadian chartered bank under which it can borrow at bank prime plus 1¼% per annum. Currently, the operating credit facility is $750,000.

The Corporation has pledged a $1,000,000 first fixed and floating charge over its petroleum and natural gas properties and a floating charge over all other assets.

9. COMMITMENT

The Corporation conducts its business from premises rented under a lease arrangement which expires May 31, 1997. The approximate aggregate minimum annual rental payments are $13,200.

10. INCOME AND CASH FLOW PER COMMON SHARE

The per share amounts are based on the weighted average number of shares outstanding during the year, which was 14,957,235. Cash flow from operations per share is based on cash flow from operations before changes in non-cash working capital balances related to operating activities.

Fully diluted income and cash flow from operations per share have not been presented because there is no material difference from basic income and cash flow from operations per share.

CORPORATE INFORMATION

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Chartered Accountants
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President and
Chief Executive Officer

Murielle J. Rausch
Corporate Secretary

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President
Rockport Energy Corporation

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Vice-President, Production
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